HUD Homeownership Vouchers --Loan Financing
Use of Two Mortgages Instead of a Single Mortgage Appears to Reduce Purchasing Power for Families Unless Additional Subsidy Is Added and Also Appears Unnecessary to Protect Against Reasonable Risk of Lender Loss

Tom Cusack, Oregon HUD Senior Community Builder

Some have expressed interest in using two mortgages instead of one mortgage in conjunction with HUD homeownership vouchers.

The theory is that since the term of the assistance is limited to 15 years for families [there is no such limit for persons with disabilities or the elderly] lenders can't or won't make a 30-year mortgage when the assistance will be ending prior to the 30-year term of the mortgage.

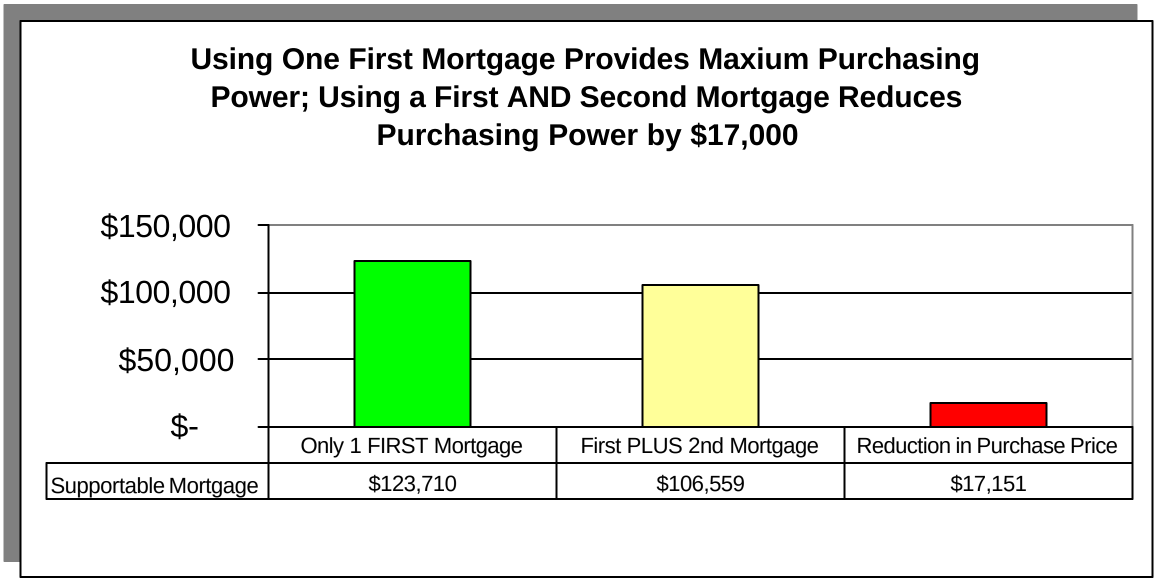
Instead, the idea is to make a 30-year mortgage based on the income of the homebuyer and a 15-year second mortgage based on the amount of the subsidy by HUD.

There are several problems with this approach.

Problem #1 –Reduced purchasing power

Using two mortgages, one with a 15-year term, will reduce the purchasing power of HUD homeownership vouchers, even if there is no mortgage insurance on the second mortgage.

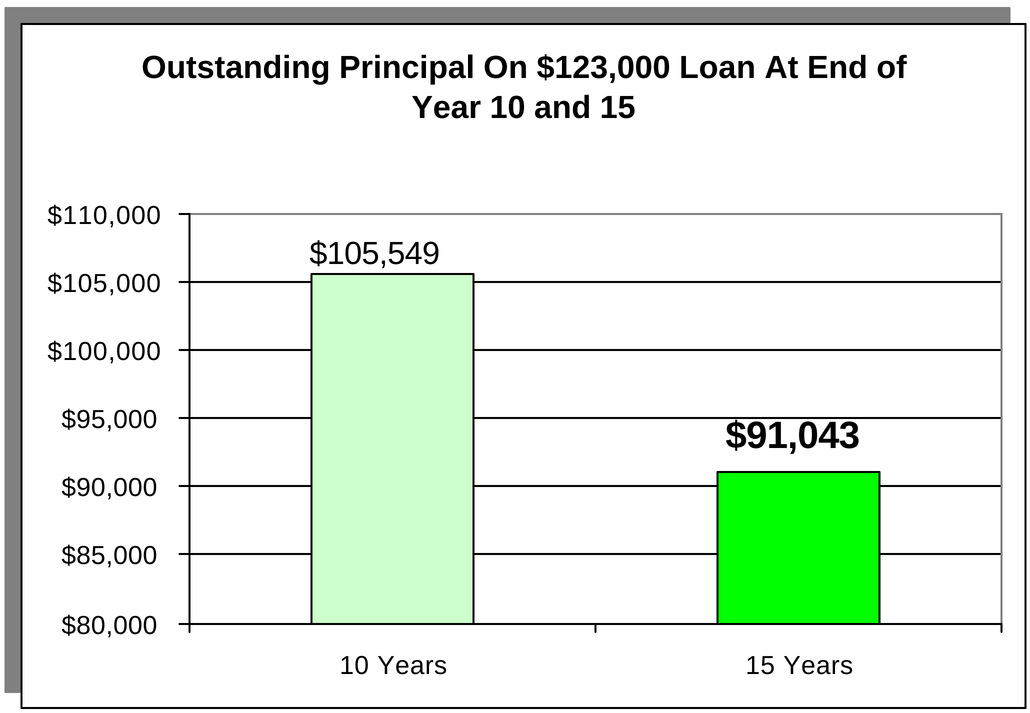
The graph below shows the negative impact on purchasing power, using the Portland 3 bedroom Fair Market rent of $1,015 coupled with a state bond rate, and a .005% monthly mortgage insurance premium ONLY on the first mortgage.



<u>Problem #2—To retain purchasing power requires additional PUBLIC SUBSIDY.</u>

It is possible of course to regain LOST purchasing power by buying down the interest rate but would require some form of subsidy, most likely PUBLIC subsidy. This would in turn mean that fewer loans could be made.

<u>Problem #3—The 2 Mortgage Approach Overlooks A Significant Pay Down of the Loan Principle by year 15, and the STRONG likelihood that the homebuyer will be able to sell the home for more than the remaining principle.</u>



At the end of year 15, using the Portland example of a $123,000 mortgage, the outstanding balance would be slightly more than $91,000, about 74% of the original mortgage balance.

Because the homeowner can sell (or possibly refinance) the home in year 15, for the lender of mortgage insurance provider to suffer a loss there would have had to **have <u>been a decline in property of more than 25% *over a 15 year period*, a HIGHLY unlikely event.</u>**

Conclusion—Use of a 2 mortgage scenario appears to <u>reduce purchasing power of families</u>, could drive up public subsidy, and appears unnecessary to protect against realistic mortgage risk in year 15 of the mortgage term.